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FORMER TBW CEO PLEADS GUILTY TO $1.5 BILLION FRAUD SCHEME

WASHINGTON – Paul Allen, the former chief executive officer at Taylor, Bean & Whitaker (TBW), pleaded guilty today to making false statements and conspiring to commit bank and wire fraud for his role in a $1.5 billion fraud scheme that contributed to the failure of 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; 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, 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.

Allen, 55, of Oakton, Va., pleaded guilty to a two-count criminal information before U.S. District Judge Leonie M. Brinkema in the Eastern District of Virginia. Allen faces a maximum penalty of five years in prison for each count when he is sentenced on June 21, 2011.

According to a statement of facts submitted with his plea agreement, Allen joined TBW in 2003 as its CEO and reported directly to its chairman. He 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 raised money by selling asset-backed commercial paper to financial institutions, including Deutsche Bank and BNP Paribas, and used the money to purchase TBW mortgages. The facility was managed by TBW and had no employees of its own.

According to court records, shortly after Ocala Funding was established, Allen learned there were inadequate assets backing its commercial paper, a deficiency referred to internally at TBW as a "hole" in Ocala Funding. Allen admitted that in an effort to cover up the hole and to mislead investors, he told a co-conspirator to produce reports that concealed the hole. He also admitted that he knew that these misleading reports were sent to Ocala Funding investors and other third parties.

Allen also admitted in court that he kept the chairman of TBW informed of the collateral shortfall, and that in the fall of 2008, Allen was told that the hole had been moved from Ocala Funding to Colonial Bank. At the time that TBW ceased operations, the hole was approximately $1.5 billion. According to court documents, as a result of the Ocala Funding fraud scheme, Freddie Mac, Colonial Bank and Ocala Funding investors believed they had an undivided ownership interest in thousands of the same mortgage loans.

Court records state that in March 2009, Allen was directed to approach a private equity investor to secure capital to meet a $300 million private capital requirement the U.S. Department of Treasury set for Colonial Bank to receive $553 million from the Troubled Assets Relief Program (TARP). Although Allen failed to secure the funding from the investor, he admitted in court that the TBW chairman represented to others that the investor was a $50 million participant and that the chairman diverted $5 million from Ocala Funding to an escrow account in the investor's name. This deception caused Colonial Bank to falsely announce publicly it had met its $300 million capital raise contingency and to send a letter to the FDIC that all investors had met a 10 percent escrow deposit requirement. Colonial Bank never received any TARP funds.

In court today, Allen also admitted to making false statements in a letter he 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. In this letter, Allen omitted that the delay in submitting the financial data was attributed to concerns its independent auditor had raised about the financing relationship between TBW and Colonial Bank. Instead, Allen falsely attributed the delay to a new acquisition and TBW's switch to a compressed 11-month fiscal year.

To date, five other individuals have pleaded guilty for their roles in this and related fraud schemes.

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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