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Office of the Special Inspector General for the Troubled Asset Relief Program

Press Statement

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Former Chief Credit Officer of United Commercial Bank Convicted in Securities Fraud Scheme at First TARP Bank to Fail

Taxpayers Lost More Than $298 Million on TARP Investment in Bank

I am Christy Romero, Special Inspector General at SIGTARP, a federal law enforcement agency that investigates crime related to the taxpayer-funded bailout known as TARP.

On Wednesday, after a six-week trial, a federal jury convicted Ebrahim Shabudin, former executive vice president, chief credit officer, and chief operating officer at failed TARP bank United Commercial Bank (UCB) on seven felony counts for his role in a securities fraud scheme designed to mask the true condition of the bank in the third and fourth quarters of 2008. For his conduct, Shabudin will face up to 145 years in federal prison; fines of up to $16,750,7000; and up to 27 years of supervised release at sentencing. The jury's decision marks the third criminal conviction of a UCB officer based on the investigation SIGTARP conducted with our law enforcement partners. UCB was the first TARP bank to fail, and taxpayers suffered a loss of the $298.7 million TARP investment in the bank along with $3 million in unpaid dividends.

While Shabudin's criminal scheme was complex, the bottom line is this TARP bank senior officer had the chance to do the right thing, and he chose not to do it. Between 2004 and 2007, UCB embarked on an aggressive growth strategy, growing its loan portfolio from $4.4 billion to more than $8 billion. Testimony at trial was that as the chief credit officer, Shabudin was the primary person at the bank responsible for determining the risk rating of loans and for determining how much the bank should reserve for losses on specific loans. Testimony at trial revealed that in an effort to have the bank "break even" in the third quarter 2008, Shabudin and co-conspirators delayed downgrading loans despite knowing that collateral had declined in value or was missing, out of hope that something would change. Based on what they knew, that hope was unfounded. They knew that new appraisals showed collateral value that had declined significantly. They knew that there was a third-party offer to buy one loan for far less than what was owed. They knew that the bank did not have proper documentation for collateral. They knew that one borrower was in receivership. They had such a concern that inventory securing one loan was either missing or non-existent, that they thought the bank had been defrauded and referred it to law enforcement. Testimony at trial was that the warehouse that was supposed to contain the inventory securing that loan looked like a staged set. Shabudin and his co-conspirators continued this "delay-and-pray" scheme on these same loans the next quarter, even though the facts they knew did not change, all while the bank applied for and received $298 million in TARP.

Breaking the banking and securities laws will not be tolerated. Banking laws require that banks use facts they know about specific loans to determine how much they should reserve to cover losses. Shabudin and his co-conspirators worked backward, by first determining what allowance for losses on loans they wanted to take at quarter-end (their "Q-end allowance") and then used that number to back into which loans they would downgrade, if any, and how much in losses they would reserve. Testimony at trial was that if the bank increased the allowance for losses, it would be an added expense, and the bank would not be able to break even and would lose money.

Shabudin's scheme with his co-conspirators misled the bank's auditors, investors, banking regulators, and the Treasury Department from obtaining a true picture of the bank's financials. After receiving TARP in November 2008, UCB failed less than a year later, leaving taxpayers with a complete loss of the $298 million TARP investment and $3 million in unpaid dividends. TARP was passed by Congress to provide stability to our nation's financial system and to promote bank lending during a time of crisis, not to serve as a tool for bank executives to commit fraud and fill holes on their bank's books.

Other criminally convicted UCB officers include former senior vice president for credit risk and portfolio management Thomas Yu and former chief financial officer Craig On.

SIGTARP is on watch, protecting American taxpayers and bringing accountability and justice for TARP-related crime. I would like to thank United States Attorney Melinda Haag for standing united with SIGTARP to fight bailout-related crime, as well as Assistant U.S. Attorneys Adam Reeves and Robert Rees, who did a phenomenal job prosecuting the case. I would also like to thank our law enforcement partners for their work on this case, including the Federal Deposit Insurance Corporation Office of Inspector General, the Office of Inspector General for the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau, and the Federal Bureau of Investigation.

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