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I want to thank the International Banking Federation for inviting me here today to talk about SIGTARP's important work in response to the U.S. financial crisis and the TARP bailout.

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President John F. Kennedy said that when written in Chinese, the word crisis is composed of two characters; one represents danger, and the other represents opportunity. Everyone is aware of the danger caused by the U.S. financial crisis. So today I want to focus on opportunity that comes from that crisis.

There is an old saying, "opportunity makes the thief." When Congress authorized TARP, it created SIGTARP as a criminal law enforcement agency with the power to search, seize, and arrest. Senator Max Baucus, who proposed the creation of SIGTARP, said, "My concern here is, with such massive amounts of dollars dedicated so quickly, there is bound to be considerable fraud and misuse of funds."

When I first started at SIGTARP, TARP programs were just being announced, and the money was going out the door. Fast. Billions of dollars. We at SIGTARP assess TARP for vulnerabilities and have made 130 recommendations to Treasury on how to prevent fraud, waste, and abuse. When we have found fraud and other crime, we have been swift and aggressive. We seek individual accountability and corporate accountability. Crime related to the bailout is reprehensible. Judges recognize that and are imposing lengthy prison sentences on those we arrest, reflecting the seriousness of the crimes.

Just like the Chinese characters, a crisis also represents an opportunity for change. Change for the better.

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What is the larger lesson we can learn from the crisis and the TARP bailout? I ask myself, "How can SIGTARP, as one small federal agency, bring change for the better?" The answer to both of these questions is to restore confidence.

In 2008, Treasury Secretary Henry Paulson asked Congress for a \$700 billion TARP bailout saying that it was necessary to restore confidence in the banking system. Our nation had lost confidence when it learned that the system was controlled by too big to fail banks that had made risky gambles. But they had not protected themselves from the consequences when their risk-taking went south. The consequences of their risky moves remained attached to those financial institutions like barnacles on the hull of a ship, each one forming a hard shell that created a drag. Even worse, these institutions were counterparties to each other, anchored to each other so that if one sank, they all sank. And the smaller institutions faced the same fate because many of them had made risky moves to expand aggressively without protecting themselves.

Removing barnacles is back breaking work. The ship goes into dry dock and each of the barnacles has to be scraped off with great effort. It is expensive. It takes time.

Regulators were ill-prepared to protect American taxpayers from the crisis. They had failed to appreciate how many barnacles had attached one by one and created this massive drag. They failed to appreciate how institutions were anchored to each other.

Secretary Paulson essentially told Congress that it was too risky to dry dock the worst of the institutions, that there was no time to chisel off all of these barnacles. So instead, the American taxpayers bailed them out. They were given fuel to push through that drag, so that they would not sink. TARP and other federal rescue efforts did instill some confidence back in the American people. But the

fact that all the ships did not sink, was not enough on its own to restore full confidence. They remained too big to fail. They still have the barnacles.

Ships along the United States West Coast will take a 100-mile detour from the ocean to Portland, Oregon. They must navigate a difficult and turbulent passage over a bar by the Columbia River and through the Willamette River. But ship captains know that barnacles cannot live in fresh water. In the fresh waters of the Columbia or Willamette, the barnacles loosen and fall away. So must our nation, and frankly all nations, navigate difficult passageways to get financial institutions back to fresh water. Fresh water so that the old barnacles fall off. Fresh water to avoid coming into contact with new barnacles.

There are three important ways to get to that fresh water. First, regulators must be tough, not just in enacting rules but in enforcing rules. Second, financial institutions must change from a culture of risk-taking and greed. They must focus more on protecting themselves, rather than looking for future bailouts. Finally, sometimes the only way to get to fresh water is to remove those polluting it or force them to change. So we at SIGTARP will seek individual accountability and corporate accountability.

Too big to fail must end. Regulators can help end too big to fail and the moral hazard that accompanies it, by providing incentives to make it more attractive to an institution to want to change. Incentives must remove any advantage to being too big to fail.

Regulators must also be tough in enforcing new reforms. They have the opportunity to ensure that reforms are not gutted by exception after exception. Every bank can formulate an argument as to why a reform should not apply to them. But the big picture is that those reforms were necessary because of the very reason why many of those banks got their barnacles in the first place.

It's not just new reforms that are important. There must be stronger enforcement by regulators of the basic banking laws that have always existed.

Every day, SIGTARP conducts criminal investigations of banks that have broken basic banking laws. Laws against bank fraud. Laws against falsifying books and records. Laws against misapplying banks funds. Laws against making past due loans look current. Laws against self-dealing by bank officers.

We have seen time and time again bank examiners with deep-seeded concerns who asked questions that would have exposed crime, but they accepted explanations from bank officials on their face without further due diligence. SIGTARP investigations find that the bank officers' explanations, however, do not match up with the bank's records. These bank examiners did not push hard enough for the truth. In some instances, the examiners may have issued a cease and desist order but did not follow up in detail to see if real change followed. We find regulators who suspected the possibility of non-compliance with banking laws, but they did not refer the matter to law enforcement.

Regulators have an opportunity to use the lessons learned to monitor the barnacles and stop the bank when barnacles reach dangerous levels. Regulators can deter violations of the banking laws that can put the safety and soundness of the bank at risk by making it clear that they will push for the truth and take tough action. This will help restore confidence.

But, companies must do their part, too. At the core of the financial crisis was a pervasive culture of rampant risk-taking and greed. Bankers sailed in waters littered with barnacles without protecting themselves. That culture must change.

Companies must effectively manage risk. They must limit leverage. They must understand their exposure to counterparty risk. Financial institutions that believed they were fully hedged with no risk exposure later learned that if their counterparty was vulnerable to failure, they, too, were exposed.

Companies must have strong shock absorbers. Capital. A well-balanced balance sheet. An organizational design where top management and the board know about exposures to dangerous risk rather than being insulated from that knowledge.

The tone must come from the top. SIGTARP arrests bankers who cultivated a culture where they believed they were untouchable as they broke the law. Chasing profits and aggressive expansion led to lower quality loans that violated the bank's policies and banking laws. Top bank officers told their employees to follow the policies and laws, as they themselves broke them over and over again.

A lesson of the crisis is that culture is not about what someone says. Culture is about what is allowed. What is encouraged. What is rewarded. There is an opportunity for a new tone at the top of these institutions that it is time to sail through fresh waters. Not because a regulator requires them. But to protect themselves. This is what is needed to fully restore confidence.

Finally, we at SIGTARP know that the way to gain confidence is to earn that confidence by demanding accountability. TARP-related crime can have a dangerous ripple effect through our economy. Fraud at a TARP bank spreads risk to shareholders. To counterparties. To communities. If the bank fails, the FDIC pays for it. Employees lose jobs. Law enforcement makes our economy less vulnerable to that ripple effect. It makes the banking system stronger by removing those who pollute fresh water. Law enforcement promotes greater confidence.

At SIGTARP, we understand that full recovery from the crisis requires not only restoring confidence in the banking system but also in our justice system, because compliance with the law fosters confidence in our banking system. An important part of SIGTARP's work is investigating bankers who commit crime, arresting those bankers, supporting their prosecution, and getting them banned from the banking system before they can do further harm to their banks or others.

Part of maintaining confidence is ensuring that we dispense justice in a fair and rational manner based only on the facts and the law. Public outcry does not form a basis for our investigations. The law dictates what actions constitute a crime. Risk-taking and greed are not a crime. But, corporate cultures with these traits can serve as a breeding ground for crime.

With each case we take the opportunity to learn how to unwind complex criminal schemes designed to be hidden.

SIGTARP will take the opportunity to be aggressive in our pursuit of justice and accountability for crimes related to TARP. We will take the opportunity to reject the argument that it is not a crime if the act was prevalent in the industry. We will take the opportunity to refuse to slowdown rooting out crime at TARP banks despite the fact that many TARP banks are now out of TARP. We will take the opportunity to remain skeptical when a large institution claims that prosecution will have devastating consequences, consequences the institution should have considered before breaking the law and which should not, on their face, serve as immunity from criminal investigation. We seek individual accountability at every level. Our investigations have resulted in criminal charges against more than 40 officers of banks and 40 of their co-conspirators. This is where I say that criminal charges are not evidence of guilt. We learn from patterns of crime.

SIGTARP has arrested bankers and co-conspirators that hid a past-due loan through “extend and pretend” fraud schemes. The bank makes a new loan listing a stated purpose, but the co-conspirators know that the real purpose is to use the proceeds to make past-due loans appear current. The books are falsified. The board and bank examiners are lied to. Deceived. In some cases, the new loan is not in the name of the old borrower, but rather their friend, relative, or employee. That’s called a “straw borrower.” Straw borrowers are evidence of an attempt to hide the truth.

SIGTARP has arrested bankers and co-conspirators engaged in “delay and pray” fraud schemes where bankers had evidence that loans were not going to be repaid but delayed recognizing that.

SIGTARP has arrested bankers and co-conspirators where the borrower drew down on a line of credit purportedly for completed construction. The bank officer turns a blind eye, or worse, knows, that the construction work was not completed. The proceeds are used to make past-due loans appear current or for personal expenses.

SIGTARP has arrested bankers and co-conspirators where the borrower, or their straws, bought foreclosed property with bank funds. We have arrested bankers that made roundtrip transactions fraudulently lending funds out for a purported new loan. In reality, the co-conspirator borrower immediately invests it right back in the bank, giving the illusion of new capital.

We will aggressively pursue all TARP-related crime, wherever we find it.

While we always pursue individual accountability, I am a firm believer that corporations must be held accountable when they break the law. It's not that corporations can be jailed, but they can face criminal charges, trials, and convictions where appropriate. Corporate penalties must be substantial or we risk it becoming a cost of doing business. We will seek significant corporate overhauls to ensure that they do not break the law again. This could mean firings, restructuring, and a complete revamp of internal controls.

SIGTARP's law enforcement successes help end moral hazard by bringing consequences to those who did not play by the rules and broke the law. Enforcing the law reduces vulnerabilities in the financial system and mitigates future harm by removing from the system those who have already shown a willingness to break the law. It deters those who may contemplate breaking the law in the future.

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The crisis provides the opportunity to learn the lessons of the past, which includes for us at SIGTARP, knowing patterns of past crimes. Knowing those lessons is not enough. There must be real action. Tough action. There is more that SIGTARP must do to combat bailout-related crime, and I remain convinced that these cases are necessary to restore confidence.

But there is more that regulators and institutions themselves must do to regain confidence.

Tough action is necessary to gain confidence in the markets so the public knows that the barnacles have been scraped off and that institutions will sail in fresh water. It will not be easy. Or fast. Or painless.

This crisis has presented an opportunity. An opportunity to learn from the past. An opportunity to prevent future danger. An opportunity to restore confidence. We must take full advantage of this opportunity.

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