



SIGTARP

OFFICE OF THE SPECIAL INSPECTOR GENERAL
FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

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**FORMER CHAIRMAN OF TAYLOR, BEAN & WHITAKER CONVICTED
FOR \$2.9 BILLION FRAUD SCHEME THAT CONTRIBUTED TO THE FAILURE OF
COLONIAL BANK AND TAYLOR, BEAN & WHITAKER**

WASHINGTON, D.C. – Lee Bentley Farkas, the former chairman of what was once one of the nation’s largest mortgage lenders, Taylor, Bean & Whitaker (TBW), was convicted after a 10-day jury trial of 14-counts of a federal indictment charging him with 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. The scheme was one of the largest and longest-running bank fraud and TARP fraud schemes in the United States and one which ultimately led to the failures of Colonial Bank and TBW.

The conviction 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, Acting 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 Criminal Investigation (IRS-CI).

Christy Romero, the Acting Special Inspector General for the Troubled Asset Relief Program (SIGTARP) stated, “This is the most significant criminal prosecution to date rising out of the financial crisis. Today’s verdict ensures that Farkas will pay for his crime—an unprecedented scheme to defraud regulators during the height of the financial crisis and to steal over \$550 million from the American taxpayers through TARP. At the heart of this scheme was greed and an abuse of power by senior executives at TBW and Colonial Bank. SIGTARP and its partners in the Financial Fraud Enforcement Task Force stopped the scheme dead in its tracks and will continue to bring to justice those criminals who seek to profit by exploiting TARP through fraud.”

Investigators working for SIGTARP originally identified the massive fraud scheme in 2009, in connection with Colonial BancGroup’s application 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). Colonial BancGroup’s TARP application was conditionally approved for \$553 million contingent on the bank raising \$300 million in private capital. SIGTARP uncovered that Farkas and his co-conspirators caused Colonial BancGroup to

falsely represent to Treasury that its subsidiary, Colonial Bank had secured \$300 million in funding from private investors. SIGTARP quickly determined that the private capital supposedly raised by Colonial Bank, by and through Farkas and his co-conspirators, did not originate from private investors but instead appeared to be money that the co-conspirators had improperly diverted from Ocala Funding, a mortgage lending facility controlled by TBW. Evidence at trial established that in connection with the TARP 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.

SIGTARP and its law enforcement partners unravelled a massive highly complex fraud scheme by senior executives at both TBW and Colonial Bank. According to court documents and evidence presented at trial, Farkas and his co-conspirators ultimately were found to have misappropriated approximately \$1.5 billion from Ocala Funding, and more than \$1.4 billion from Colonial Bank's Mortgage Warehouse Lending Division in what began in 2002 as an effort to conceal and cover TBW's ever-increasing operating losses but escalated to an almost \$3 billion fraud scheme that contributed to the failure of Colonial Bank and TBW by August 2009.

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 Securities and Exchange Commission (SEC) and press release announcing the success of the capital raise. Swift action taken by SIGTARP and its law enforcement partners stopped Colonial BancGroup from receiving any TARP funds.

According to court documents and evidence presented at trial, Farkas also personally misappropriated more than \$20 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.

Six individuals have pleaded guilty for their roles in the fraud scheme, including: Paul Allen, former chief executive officer of TBW; Raymond Bowman, former president of TBW; Desiree Brown, former treasurer of TBW; Catherine Kissick, former senior vice president of Colonial Bank and head of its Mortgage Warehouse Lending Division (MWLD); Teresa Kelly, former operations supervisor for Colonial Bank's MWLD; and Sean Ragland, a former senior financial analyst at TBW.

At sentencing, scheduled for July 1, 2011, Farkas faces a maximum prison term of 30 years for the conspiracy charge and for each count of bank fraud, 20 years for each count of wire fraud related to TARP, 30 years for each count of wire fraud affecting a financial institution and 25 years for each securities fraud count. Farkas was immediately remanded into custody.

This conviction is part of efforts underway by the President's Financial Fraud Enforcement Task Force. The case was 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. The case was

investigated by SIGTARP and its partners, the Federal Bureau of Investigation's Washington Field Office, Federal Deposit Insurance Corporation Office of the Inspector General, Department of Housing and Urban Development Office of the Inspector General, Federal Housing Finance Agency Office of the Inspector General and the Internal Revenue Service Criminal Investigation. The Financial Crimes Enforcement Network of the Department of Treasury also provided support in the investigation. The SEC participated in the investigation and also brought a separate action.

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