



SIGTARP

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

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

FOR IMMEDIATE RELEASE
THURSDAY, JUNE 30, 2011
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202-622-1419

FORMER CHAIRMAN OF TAYLOR, BEAN & WHITAKER SENTENCED TO 30 YEARS IN PRISON AND ORDERED TO FORFEIT \$38.5 MILLION

WASHINGTON, D.C. - Lee Bentley Farkas, the former chairman of Taylor, Bean & Whitaker (TBW), was sentenced today to 30 years in prison and ordered to forfeit \$38.5 million for his role in masterminding one of the largest and longest-running bank fraud and TARP fraud schemes in the United States. The massive fraud scheme perpetrated by Farkas led to the ultimate failures of Colonial Bank and TBW. At one time, TBW was one of the largest privately held mortgage lending companies in the United States. Farkas, 58, of Ocala, FL, was convicted on April 19, 2011, of 14 counts of conspiracy to commit bank, wire and securities fraud and substantive counts of bank, wire and securities fraud.

Farkas was sentenced today by U.S. District Judge Leonie M. Brinkema in the Eastern District of Virginia. The sentence 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; Christy L. Romero, Acting Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Assistant Director in Charge James W. McJunkin of the FBI's Washington Field Office; Michael P. Stephens, Deputy Inspector General of the Department of Housing and Urban Development (HUG-OIG); Jon T. Rymer, Inspector General of the Federal Deposit Insurance Corporation (FDIC-OIG); Steve A. Linick, Inspector General of the Housing Finance Agency (FHFA-OIG); and Victor S. O. Song, Chief of the Internal Revenue Service-Criminal Investigations (IRS-CI).

Christy L. Romero, Acting Special Inspector General for the Troubled Asset Relief Program stated, "During the housing and financial crisis, while many American taxpayers struggled just to keep their heads above water, Farkas lived in the lap of luxury using the more than \$38 million that he stole from TBW and Colonial Bank. Farkas used the stolen money to buy a jet, expensive antique and collector cars including a Rolls Royce, and multiple vacation homes, all while masterminding a fraud of stunning scope. His fraud began to unravel when he tried to obtain TARP funds to fill the billions of dollars of holes at TBW and Colonial Bank. He failed and his fraud was discovered by SIGTARP and its law enforcement partners. Shameless in his duping of investors and regulators, he attempted to deceive taxpayers. The judge's sentence today makes it clear that Farkas will leave his lavish lifestyle behind and spend his golden years locked up in prison."

“Lee Farkas’ boundless greed ultimately led not to a life of luxury, but to a prison cell,” said Assistant Attorney General Breuer. “Mr. Farkas orchestrated a fraud of staggering proportions, the effects of which are still being felt by the thousands of former employees of TBW and Colonial Bank, and shareholders of Colonial BancGroup. From a \$28 million private jet and vacation homes in Maine and Key West, to expensive antique cars and restaurants, Mr. Farkas plundered his company and Colonial Bank to prop up his failing business and to feed his ostentatious lifestyle. When greed and risky behavior lead individuals to break the law, we will do everything in our power to investigate, prosecute and punish those responsible.”

“Today’s sentence ensures that Lee Farkas will spend the rest of his life in prison and is just punishment for a man who pulled off one of the largest bank frauds in history,” said U.S. Attorney MacBride. “Between 2007 and August 2009, as the country faced one of the worst financial crises in recent history – largely sparked by fraudulent mortgage-related transactions – Farkas ramped up his scheme to rip off banks through sales of fake mortgage assets and by double-and triple-selling mortgage loans. By causing the failure of Colonial Bank and TBW, two significant players in the mortgage market, Farkas’s scheme affected those at the heart of the financial crisis, including major financial institutions, government agencies, taxpayers, and employees and investors.”

Investigators working for SIGTARP originally identified suspicious activity 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. A subsequent investigation by SIGTARP and other law enforcement agencies 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. The investigation later determined that the private capital supposedly invested by TBW and two investors instead was money that the co-conspirators, had improperly diverted from Ocala Funding, a mortgage lending facility controlled by TBW. In connection with the application for TARP funds, Colonial BancGroup submitted financial data and filings that included materially false and misleading information related to mortgage loans and securities held by Colonial Bank as a result of the fraudulent activity at TBW. Colonial Bancgroup never received the TARP funding.

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 stole more than \$38 million from TBW and Colonial Bank to finance his extravagant lifestyle. He acquired a jet, a large collection of expensive and antique collector cars, multiple vacation homes, rental properties, restaurants, and small businesses, financed by TBW.

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. All have received jail sentences for their roles in the massive fraud scheme: Allen was sentenced to 40 months in prison; Bowman was sentenced to 30 months in prison; Brown was sentenced to six years in prison; Kissick was sentenced to eight years in prison; and, Kelly and Ragland were each sentenced to three months in prison.

SIGTARP commends the prosecutors on the case 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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