



# SIGTARP



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

QUARTERLY REPORT TO CONGRESS  
JANUARY 30, 2019



# SIGTARP



422

Criminally Charged



359

Convicted



274

Sentenced to Prison

Including

91

Homeowner Scammers



82

Bank Borrowers



70

Bankers



**\$10 Billion =**

Recovered from Investigations

**31x**

Return on Investment

## LETTER FROM THE SPECIAL INSPECTOR GENERAL

SIGTARP's investigations continue to bring justice and monetary recoveries. SIGTARP investigations have resulted in more than \$10 billion recovered (\$8.1 billion to the Federal Government), criminal charges against 422 defendants (359 convicted, 274 sentenced to prison), civil charges against at least 24 defendants, and criminal or civil enforcement actions against 20 companies. We are identifying fraud, waste, and abuse in TARP foreclosure prevention programs that spent nearly \$3 billion last year. This quarter, the Justice Department brought enforcement actions resulting from SIGTARP investigations into TARP's Hardest Hit Fund blight demolition program. DOJ indicted a Cuyahoga County (Ohio) Land Bank official on bribery charges related to awarding TARP-funded contracts.<sup>1</sup> DOJ also resolved a false claims act investigation against a \$2 million TARP recipient – the primary Fort Wayne, Indiana, demolition contractor in HHHF – for dumping construction debris in the ground, covering it, and filing false claims.

We also continue to support criminal prosecutions of the 104 bankers that SIGTARP investigated. In Fiscal Year 2019, a Delaware Federal court sentenced to prison seven insiders of TARP bank Wilmington Trust Corp. (WTC) after SIGTARP's investigation of a crime described by the judge as “the worst financial crime in Delaware in at least the last 35 years.” This brings the number of bankers that SIGTARP investigated who were sentenced to prison to 70. Also in this fiscal year, after the bank resolved DOJ's indictment of the bank for \$60 million and the SEC's action, WTC shareholders recovered \$210 million from Wilmington Trust and KPMG. Shareholders included, for example, the Coral Springs Police Pension Fund, the St. Petersburg Firefighters' Retirement System, the Pompano Beach General Employees Retirement System, the Merced County Employees' Retirement Association, and the Automotive Industries Pension Trust Fund.

**“With 92 bankers investigated by SIGTARP convicted of crimes, including 70 already sentenced to prison, SIGTARP has detected a pattern of fraud by bank insiders arising out of the most recent financial crisis. Law enforcement and bank examiners can use this new pattern to catch and stop fraud before it jeopardizes our nation's banks.”**

*-Special Inspector General Christy Goldsmith Romero*

Court sentencing of bank officials investigated by SIGTARP include prison terms of 23 years, 17, 12, 11, 10, 8 and 6 years, with an average prison sentence of more than 4 years. These substantial sentences reflect the severity of the crimes, the extent of the harm, and defendants at high levels of seniority. Seven Wilmington Trust insiders sentenced to prison include the president (6 years), the CFO (6 years), and the chief credit officer (4.5 years).

Of the 104 bankers criminally charged resulting from a SIGTARP investigation for a crime arising out of the financial crisis, 83 were CEOs, CFOs or other senior bank officials. Only in those roles did they have the opportunity to commit such large fraud schemes with such devastating consequences.

The fraud out of the most recent financial crisis that we found was substantial in size. For example, in addition to the Wilmington Trust case, SIGTARP uncovered a \$2.9 billion fraud scheme by Colonial Bank and Taylor, Bean & Whitaker (TBW) that resulted in 8 convictions by a Federal court in Alexandria, Virginia. U.S. Attorney Neil MacBride described the fraud as “one of the largest, longest-running bank fraud schemes in history that led to the collapse of Colonial Bank and TBW.” A Federal court in Norfolk, Virginia, convicted 10 defendants for a fraud scheme we uncovered led by the CEO of the Bank of the Commonwealth that resulted in the largest bank failure in the history of Virginia. Four insiders at United Commercial Bank were convicted by a Federal court in San Francisco for a fraud scheme in a case described by U.S. Attorney Melinda Haag as “one of the largest criminal prosecutions brought by the Department of Justice of wrongdoing by bank officers arising out of the 2008 financial crisis.”

The pattern that emerges of these bank insider criminal schemes arising out of the recent financial crisis was a motive to hide the bank’s declining financial condition, rather than the traditional notion of bank fraud for personal gain. Greedy, aggressive loan growth that circumvented bank policies and underwriting controls with no regard for risk did not pay off in a downturned economy. As banks faced mounting past due or defaulted loans, each banker faced a decision – a line in the sand. Most told the truth. Others stepped over the line and committed fraud to hide the truth from regulators and investors. Manipulated allowances for loan losses, insufficient reserves, and insufficient capital marked these crimes, and that is where TARP came into the picture. Some bankers threw good money after bad by issuing new loans purportedly for legitimate purposes that were then used to mask past due loans. This fraud jeopardized the bank’s safety and soundness and, in some cases, contributed to its failure.

SIGTARP is willing to meet with bank regulators and law enforcement to discuss this pattern in more detail. Given the lack of personal gain, these fraud schemes are harder to detect than traditional bank fraud. Early detection of fraud before it jeopardizes the safety and soundness of a bank will be critical to maintaining the financial stability of our institutions. We appreciate Congress’ support and will continue to update you on SIGTARP’s investigations and audits.

Respectfully,

CHRISTY ROMERO GOLDSMITH  
Special Inspector General



# SIGTARP

SIGTARP investigations have led to enforcement actions against

# TWENTY

institutions





# SIGTARP

## SIGTARP AUDITS IDENTIFY WASTE AND ABUSE, AND DETER FUTURE WRONGDOING

### RECENT FINDINGS



Nevada's Hardest Hit Fund wasted \$8.2 million on parties, a Mercedes Benz and more



Georgia mismanaged the state's Hardest Hit Fund, wasting \$18.6 million



\$3 million in Hardest Hit Fund squandered by state agencies on parties, gifts, and gym memberships



Blight demolition program faces asbestos exposure, illegal dumping and contaminated soil risks



Financial Institutions have wrongfully terminated homeowners out of the Home Affordable Modification Program



Most of the Hardest Hit Fund has no Federal competition requirements for contract awards



The average cost of TARP demolitions in Michigan and Ohio have skyrocketed in the last few years

### OPEN AUDITS



Hardest Hit Fund travel and conference expenses



Blight demolition activities in South Carolina



Blight demolition greening and maintenance activities

## THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES & THREATS FACING THE GOVERNMENT IN TARP

SIGTARP identifies the most serious challenges and threats facing the Government in TARP. Our selection is based on the significance and duration of the challenge/threat to the mission of TARP and Government interests; the risk of fraud or other crimes, waste, or abuse; the impact on victims in addition to Treasury; and Treasury's progress in mitigating the challenge/threat.

*SIGTARP prioritizes its oversight to counter each of these challenges/threats.*

### **Risk of Fraud, Waste, and Abuse by Large Banks and Others in the Making Home Affordable Program (Until Sept. 2023)**

Unlawful conduct by any of the 152 banks or institutions that received \$19.9 billion or will continue to receive \$3.9 billion in TARP's MHA program is the top threat in TARP. Treasury will pay up to \$3.4 billion to Ocwen, Wells Fargo, JPMorgan Chase, Bank of America, Nationstar, Select Portfolio Servicing, CitiMortgage, OneWest/CIT, Bayview Loan Servicing, and Specialized Loan Servicing.<sup>2</sup> These TARP payments require compliance with the law and Treasury's rules for nearly one million homeowners in the program. Wells Fargo recently disclosed in two SEC filings its wrongful denial of homeowners for admission to the program. Despite enforcement actions and other wrongdoing by many of these financial institutions, Treasury has significantly scaled back its compliance reviews. The risk of fraud, waste, and abuse also jeopardizes the GSEs, FHA, and Veterans Affairs that participate in MHA.

### **Risk of Waste and Misuse of TARP Dollars by State Agencies for Their Own Administrative Expenses in the Hardest Hit Fund (Until Dec. 2021)**

Treasury has budgeted \$1.1 billion in TARP dollars for administrative expenses of 19 state agencies to distribute HHF assistance.<sup>3</sup> In 2016 and 2017, SIGTARP identified \$11 million in wasteful and unnecessary spending by state housing agencies, including, for example, catered barbeques, parties, country club events, leasing a Mercedes, cash bonuses, gym memberships, gifts, free parking, settlements and legal fees in discrimination

cases, other costs not associated with HHF, and more. In March 2018, SIGTARP issued an audit that found that while Treasury anticipates that millions of dollars will be spent on lawyers, accountants, auditors, consultants, information technology, communications, risk management, training, and marketing, it has no Federal requirements for competition.<sup>4</sup>

### **Risk of Corruption, Anticompetitive Actions, and Fraud in the Hardest Hit Fund Blight Elimination Program (Until Dec. 2021)**

There is a risk of corruption, anticompetitive acts, and fraud as TARP funds the demolitions of abandoned homes and apartments. The number of municipalities in the program increased to 366 communities. TARP will pay up to \$758 million. Over the last year, 7,800 abandoned houses have been demolished with 107 cities/counties starting demolitions for the first time during that period; some have not yet started reporting demolitions.<sup>5</sup>

### **Risk of Asbestos Exposure, Contaminated Soil, and Illegal Dumping in the Hardest Hit Fund Blight Elimination Program (Until Dec. 2021)**

In November 2017, based on the U.S. Army Corps of Engineers' findings SIGTARP warned that the standard protections in demolition are not present in the TARP program. The Army Corps found missing industry standard safeguards that protect against the risk of asbestos exposure, illegal dumping of debris, and contaminated material filling the hole. Treasury did not implement SIGTARP's recommendations, even to require basic documentation of proper asbestos abatement, certain inspections, landfill receipts for dumping, and receipts showing the purchase of clean dirt. TARP may expand even further in this area. The Economic Growth, Regulatory Relief, and Consumer Protection Act authorizes Treasury to use TARP dollars to remediate lead and asbestos hazards in residential properties.<sup>6</sup> SIGTARP's investigation into a demolition contractor for illegal dumping of contaminated soil was resolved by DOJ under the False Claims Act.

## **No Complete List or Data Identifying All Contractors and Others Doing Work in the Hardest Hit Fund Blight Subprogram and What They Were Paid**

Treasury and the state agencies do not know, and cannot provide to SIGTARP a complete list of contractors and others in the program. SIGTARP and Treasury cannot conduct oversight over contractors and other entities that are unknown.

SIGTARP's analysis has identified 2,048 land banks or other partners, contractors, or subcontractors that have done or are contracted to do work in the program—but given the missing data, we believe the actual numbers may be much higher.

The data provided by state agencies to SIGTARP leaves \$346 million of the \$445 million spent in the blight program unaccounted for beyond the first-level recipient. That means that, for 78% of the money spent in the program, there is no list of the hundreds, or perhaps thousands, of subcontractors doing work in the program.<sup>5</sup> Without complete records and accounting, the program and taxpayers are vulnerable.

2. SIGTARP analysis of Treasury, Aggregate Cap Monitoring Report, December 2018.

3. SIGTARP analysis of Treasury Hardest Hit Fund Quarterly Financial Reports (various dates), obtained via Treasury response to SIGTARP data calls.

4. SIGTARP Audit Report, Unnecessary Expenses Charged to the Hardest Hit Fund, August 2017, [https://www.sig tarp.gov/Audit%20Reports/Unnecessary\\_Expenses\\_Audit\\_8.25.17.pdf](https://www.sig tarp.gov/Audit%20Reports/Unnecessary_Expenses_Audit_8.25.17.pdf) , accessed 1/18/2019; SIGTARP Audit Report, Waste and Abuse in the Hardest Hit Fund in Nevada, September 2016, [https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada\\_090916.pdf](https://www.sig tarp.gov/Audit%20Reports/HHF%20Nevada_090916.pdf), accessed 1/18/2019; SIGTARP, Engagement Memorandum – Audit of Hardest Hit Fund Travel, Conferences, and Other Administrative Expenses Charged to TARP, October 2017, [https://www.sig tarp.gov/Audit%20Engagement%20Memorandums/Engagement\\_Memo\\_for\\_Audit\\_of\\_HHF\\_Travel\\_and\\_Conferences\\_10.16.2017.pdf](https://www.sig tarp.gov/Audit%20Engagement%20Memorandums/Engagement_Memo_for_Audit_of_HHF_Travel_and_Conferences_10.16.2017.pdf), accessed 1/18/2019; SIGTARP Audit Report, The Hardest Hit Fund Lacks Standard Federal Requirements for Competition, March 2018, [https://www.sig tarp.gov/Audit%20Reports/HHF\\_Competition\\_Audit\\_Report.pdf](https://www.sig tarp.gov/Audit%20Reports/HHF_Competition_Audit_Report.pdf) , accessed 1/18/2019; Public Law 114-113: Consolidated Appropriations Act, 2016, 12/18/2015, [www.congress.gov/bill/114th-congress/house-bill/2029/text](http://www.congress.gov/bill/114th-congress/house-bill/2029/text), accessed 1/18/2019.

5. SIGTARP analysis of Blight Elimination Program data provided by Housing Finance Agencies participating in the Hardest Hit Fund Program.

6. SIGTARP Audit Report, Risk of Asbestos Exposure, Illegal Dumping, and Contaminated Soil Found in Federal Blight Elimination Program. November 2017, [https://www.sig tarp.gov/Audit%20Reports/Blight\\_Eliminations\\_Inspection\\_Report\\_11.21.2017.pdf](https://www.sig tarp.gov/Audit%20Reports/Blight_Eliminations_Inspection_Report_11.21.2017.pdf), accessed 1/18/2019.





# SIGTARP

## SIGTARP CONDUCTS OVERSIGHT OF FORECLOSURE PREVENTION PROGRAMS AT RISK OF FRAUD, WASTE, AND ABUSE NEARLY \$3 BILLION WAS SPENT LAST YEAR

### The Hardest Hit Fund (HHF)

helps Americans pay their mortgages. It also pays to demolish homes and for down payments for homebuyers.

\$8.6 billion has been spent, including \$1.1 billion last year. \$1.3 billion is available to be spent by December 2021.

– Recipients include –



19 state agencies



366 cities or counties and 557 local partners



At least 1,491 contractors



Homeowners & homebuyers

### The Home Affordable Modification Program (HAMP)











pays servicers and investors to lower payments for homeowners at risk of foreclosure.

\$19.9 billion has been spent, including \$1.5 billion last year. Up to \$3.9 billion is available to be spent by September 2023.

– Recipients include –

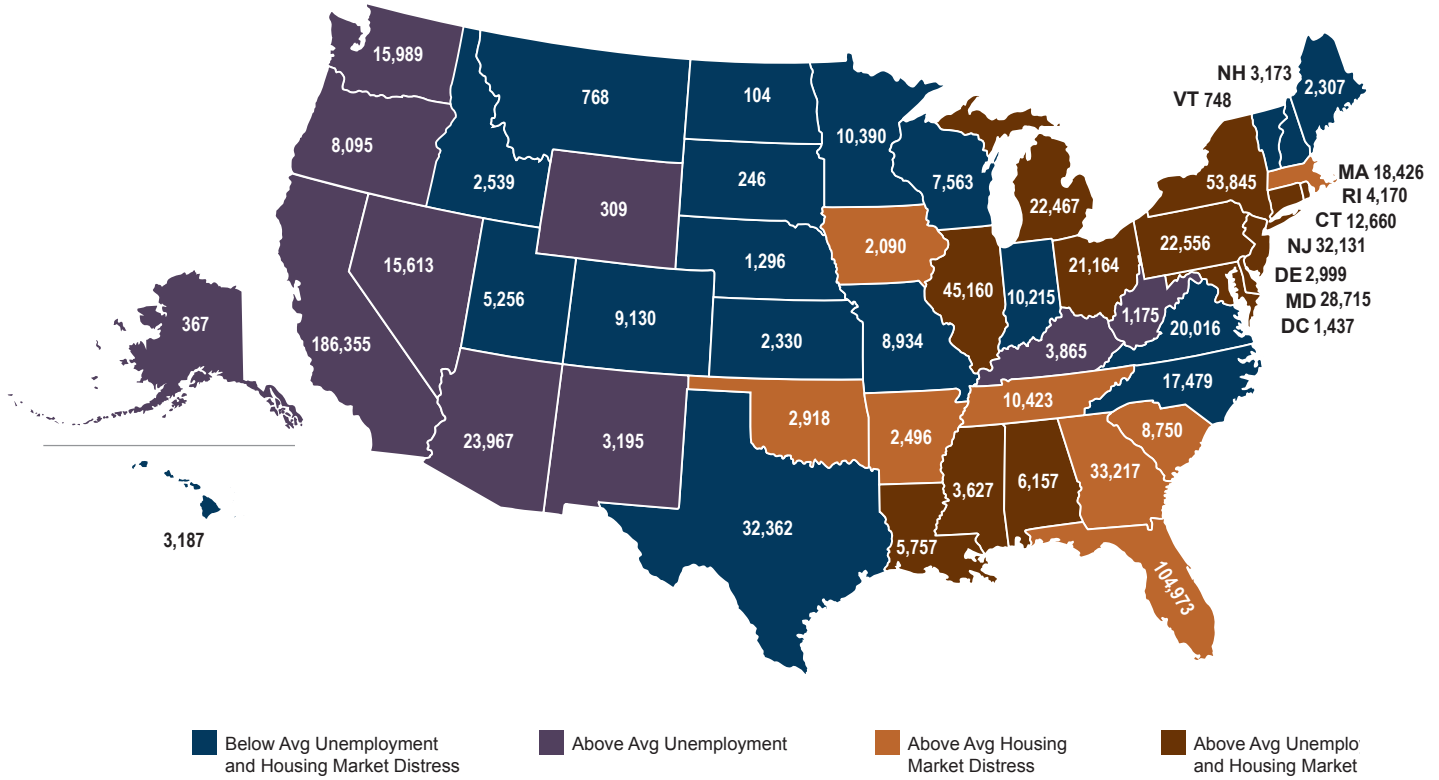


## TREASURY CONTRACTS FOR TARP DOLLARS TO BE PAID TO HAMP MORTGAGE SERVICERS UNTIL 2023 AS OF 12/31/2018

SIGTARP Investigations and Audits	\$5.1 Billion <i>TARP dollars paid</i>		\$984 Million <i>TARP Obligated or Committed to be paid</i>	Future SIGTARP Investigations and Audits
	\$3.2 Billion <i>TARP dollars paid</i>		\$544 Million <i>TARP Obligated or Committed to be paid</i>	
	\$3.1 Billion <i>TARP dollars paid</i>		\$336 Million <i>TARP Obligated or Committed to be paid</i>	
	\$2.2 Billion <i>TARP dollars paid</i>		\$229 Million <i>TARP Obligated or Committed to be paid</i>	
	\$1.4 Billion <i>TARP dollars paid</i>		\$469 Million <i>TARP Obligated or Committed to be paid</i>	
	\$1.4 Billion <i>TARP dollars paid</i>		\$476 Million <i>TARP Obligated or Committed to be paid</i>	
	\$742 Million <i>TARP dollars paid</i>		\$84 Million <i>TARP Obligated or Committed to be paid</i>	
	\$434 Million <i>TARP dollars paid</i>		\$26 Million <i>TARP Obligated or Committed to be paid</i>	
	\$349 Million <i>TARP dollars paid</i>		\$79 Million <i>TARP Obligated or Committed to be paid</i>	
	\$299 Million <i>TARP dollars paid</i>		\$139 Million <i>TARP Obligated or Committed to be paid</i>	
	\$1.6 Billion <i>TARP dollars paid</i>	142 Other Servicers (Institutions)*	\$551 Million <i>TARP Obligated or Committed to be paid</i>	
	<b>\$19.9 Billion</b> <i>TARP dollars paid</i>	<b>TOTAL</b>	<b>\$3.9 Billion</b> <i>TARP Obligated or Committed to be paid</i>	

Sources: Treasury, Aggregate Cap Monitoring Report -December 2018; SIGTARP analysis of Treasury MHA data.\*A total of 152 institutions have been paid or are eligible to be paid TARP funds through MHA, of which 131 can still receive TARP disbursements subsequent to 12/31/2018.

# 846,763 HOMEOWNERS CURRENTLY IN HAMP



Sources: Treasury HAMP data as of 11/30/2018; Bureau of Labor Statistics, STATE EMPLOYMENT AND UNEMPLOYMENT — STATE EMPLOYMENT AND UNEMPLOYMENT — November 2018, <https://www.bls.gov/news.release/pdf/laus.pdf>, accessed 1/9/2019; CoreLogic housing market data as of 9/30/2018.

Note 1: There are 3,458 active HAMP modifications in Puerto Rico that are included in the total cited above.  
 Note 2: National unemployment rate of 3.7% (seasonally adjusted), as of November 2018, used as the "average".  
 Note 3: Housing market distress based on the following factors, weighted equally in relation to the number of mortgages outstanding (based on CoreLogic data): 1) completed foreclosure sales within the past 12 months, 2) delinquent mortgages, and 3) properties in negative equity.

## STATUS OF \$9.6 BILLION IN HHF FUNDS AVAILABLE TO STATE AGENCIES UNTIL 2021

The Hardest Hit Fund was scheduled to close in December 2017. However, Congress appropriated an additional \$2 billion in FY2016. Treasury then extended the program 4 years allowing TARP spending until December 2021. SIGTARP conducts oversight through audits and investigations.

	Spent	State	Unspent	
	\$83,935,129	Alabama	\$79,820,847	
	\$266,879,716	Arizona	\$35,570,140	
	\$2,351,261,797	California	\$112,656,132	
	\$21,557,946	District of Columbia	\$8,285,923	
	\$1,128,618,177	Florida	\$31,797,741	
	\$299,259,110	Georgia	\$78,817,852	
	\$615,696,036	Illinois	\$132,492,878	
	\$233,681,561	Indiana	\$56,327,621	
	\$185,905,940	Kentucky	\$27,486,227	
SIGTARP Investigations and Audits	\$580,813,459	Michigan	\$193,227,619	Future SIGTARP Investigations and Audits
	\$105,895,153	Mississippi	\$39,610,083	
	\$640,334,391	North Carolina	\$96,756,114	
	\$367,634,779	New Jersey	\$57,123,902	
	\$140,548,580	Nevada	\$57,449,001	
	\$650,017,123	Ohio	\$120,394,878	
	\$293,114,210	Oregon	\$66,138,966	
	\$103,649,616	Rhode Island	\$14,309,963	
	\$287,456,620	South Carolina	\$34,990,720	
	\$248,299,596	Tennessee	\$58,634,466	
	<b>\$8,604,558,941</b>	<b>Total</b>	<b>\$1,301,891,073</b>	

Note: Unspent figures include an additional \$307 million in recycled TARP dollars.  
 \*Source: Treasury, response to SIGTARP data call 1/9/2019; SIGTARP analysis of HHF Quarterly Financial Reports.

## TREASURY HOLDINGS IN TARP SECURITIES IN CPP AND CDCI BANKS AS OF 12/31/18

Program	Bank	Outstanding Principal Investment	Warrants Remaining	Missed Dividends	SIGTARP Investigation
Capital Purchase Program (CPP)	One United Bank	\$12,063,000		\$8,172,683	
	Harbor Bankshares Corporation	\$6,800,000		\$2,295,000	✓
	Broadway Financial Corporation	\$3,984,332			✓
	Treaty Oak Bancorp, Inc.		\$3,098,341		
	Porter Bancorp, Inc.(PBI)		\$330,561	\$6,737,500	✓
	Wilmington Trust Corporation / M&T Bank Corporation		\$95,744		✓
	AB&T Financial Corporation		\$80,153		
	Village Bank And Trust Financial Corp.		\$31,189	\$2,026,475	
	Hope Bancorp Inc.		\$20,845		
	<b>CPP Total</b>	<b>\$22,847,332</b>	<b>\$3,656,833</b>	<b>\$19,231,658</b>	<b>4</b>
Community Development Capital Initiative (CDCI)	Carver Bancorp, Inc	\$18,980,000			
	Hope Federal Credit Union	\$4,520,000			
	Cooperative Center Federal Credit Union	\$2,799,000			
	Tri-State Bank of Memphis	\$1,795,000		\$300,463	
	D.C. Federal Credit Union	\$500,000			
	North Side Community Federal Credit Union	\$325,000			
	Neighborhood Trust Federal Credit Union	\$283,000			
	Buffalo Cooperative Federal Credit Union	\$145,000			
	<b>CDCI Total</b>	<b>\$29,347,000</b>		<b>\$300,463</b>	<b>0</b>
	<b>Grand Total</b>	<b>\$52,194,332</b>	<b>\$3,656,833</b>	<b>\$19,532,120</b>	<b>4</b>

Sources: Treasury, Transactions Report, December 31, 2018; Treasury, Dividends and Interest Report, December 2018; Treasury, response to SIGTARP data call 1/9/2019.



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